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The Conference Board

Economic and Business Environment Program

Survey Of Financial Indicators

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Introductory Note: This is the 27th issue of a semiannual Conference Board survey of a panel of senior financial executives of leading U.S. nonfinancial corporations. The survey reports the executives' financing plans based on their economic and financial expectations.

The poll was conducted during September, 1989—a period of dollar strength, an improving outlook for inflation, and an apparently tranquil period for both economic activity and financial markets. According to the 31 responding executives:

- The U.S. economy's real growth will average slightly under two percent next year and somewhat more in 1991.
- Inflation and short-term and long-term interest rates will remain about the same, on average, during the next two years.
- Their companies plan to rely more heavily on net new bonds issues and bank term loans for external financing.
- The deutsche mark and the yen are expected to appreciate against the U.S. dollar.

No Big Moves in the Economy:

The panel sees a continuation of moderate economic growth for the U.S. economy, forecasting real growth rises at an average annual rate of 1.9 percent next year and 2.3 percent in 1991. Most see real growth averaging 1.5 percent in the fourth quarter of this year and in the first quarter of 1990. Only one executive sees a recession in either year.

Inflation is not viewed as a serious problem. The panel sees it averaging 4.4 percent in 1990 and 4.3 percent in 1991. However, five executives look for inflation to average five percent or more in 1990 and six see it averaging five percent or more in 1991. None sees it reaching an average rate of six percent in either year.

In line with this tranquil outlook, interest rates are forecast to remain stable. The prime rate is predicted to average 9.7 percent each year, with the Aaa rate at about 8.6 percent. No executive looks for the Aaa rate to average as high as 10 percent in 1990 and only four see the prime rate as high as 11 percent in 1991. The stock market is expected to remain strong, with record average highs in both 1990 and 1991.

But A Move Toward Long-Term Funds:

The panel reports little shift in company plans to rely on internal vs. external funds in the 12-month period beginning September 1, 1989.

Its members do, however, plan to rely more heavily than last year on net new bond issues and bank term loans. Despite the rise in equity prices through August 1989, the companies participating in the survey had negative net new equity issues in the past 12-month financing period. They see little change in the present 12-month period—even though they anticipate further increases in equity prices.

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Companies relied heavily on commercial paper in the last financing period, with commercial paper accounting for 71.6 percent of total external funds compared with 32 percent in 1988. They again plan to make heavy use of commercial paper in 1990.

Lower Profits Ahead:

The relatively slow growth in economic activity is reflected in a decline in the growth of profits of the participating companies to 6.2 percent. This is the lowest estimate since the question on profits was introduced in October, 1985. Only two companies look for profits to be 20 percent or more, while four expect profits to be negative.

PROFIT OUTLOOK
(number of panel members)

	Less than 0 percent	*Zero to less than 10 percent*	*10 percent but less than 20 percent*	*20 percent but less than 30 percent*	*30 percent and above*	*Range*	*Average*
October 1985	3	8	6	3	1	(20)- 40	8.3
October 1986	4	5	6	1	3	(50)-232	17.4
October 1987	1	2	9	4	1	(34)-100	16.2
October 1988	1	7	5	3	1	(29)- 31	8.6
October 1989	4	7	9	1	1	(25)- 56	6.2

A Mixed Outlook for the U.S. Dollar:

The majority of executives whose companies engage in international operations anticipate the deutsche mark and the yen strengthening against the U.S. dollar during the remaining months of 1989 and the first quarter of 1990. In line with their outlook for inflation, the majority does not see a rise in the dollar price of gold. More executives look for the British pound and the Canadian dollar to depreciate than to rise against the U.S. dollar in each forecast period.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average Dec. '89 (4th Q GNP)	Average March '90 (1st Q GNP)	Average 1990	Average 1991
New Aaa industrial rate (%)	8.9	8.7	8.6	8.6	8.7
Prime rate (%)	10.5	10.0	9.8	9.7	9.7
Dow-Jones Average (Index)	2554.0	2663.0	2676.0	2705.0	2821.0
Real GNP (%)	1.7	1.6	1.5	1.9	2.3
GNP deflator (%)	4.9	4.5	4.5	4.4	4.3

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

		A	B Outlook (coming 12 months)—Number of Respondents				
		Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a)	Composition of *Total* Funds						
	Internal Funds*	83	16	0	7	1	4
	External Funds	17	16	1	4	0	7
		100%					
(b)	Composition of *External Funds*						
	Net new bond issues	7.5	7	2	5	0	2
	Private placements	7.5	9	1	2	1	3
	Net new equity	(8.9)	13	0	1	0	2
	Bank term loans	1.3	12	1	3	0	0
	Bank short-term loans	14.1	9	2	1	0	3
	Commercial paper	71.6	5	0	5	1	4
	Other	6.9	14	1	0	0	1
		100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1989 :

	Latest Available	Expected Change: By December 31, 1989 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1990 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8478	17	2	0	11	0	12	4	0	12	2
British pound	1.57	6	7	3	9	4	5	5	4	12	3
German mark	.5085	3	8	6	11	1	2	9	6	10	2
Japanese yen	.0069	2	9	6	11	1	2	8	7	10	2
Gold	$359.00	6	7	0	8	1	7	4	2	7	2

Upcoming Meetings and Conferences for Senior Executives

Oct. 17	London	The London Marriott	International Business and Financial Outlook Conference
Nov. 8	San Francisco	The Mark Hopkins	Financial Briefing for Executives
Nov. 16	New York	The Plaza	Financial Briefing for Executives
1990			
Feb. 14, 15	New York	The Waldorf-Astoria	1990 Financial Outlook Conference
Apr. 24	Chicago	The Ritz Carlton	Financial Briefing for Executives
May 7	Los Angeles	The Los Angeles Hilton	Mid-Year Business Outlook Conference
Sept. 16	New York	The Waldorf-Astoria	1991 Business Outlook Conference

The Conference Board

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ATTENTION DATA USERS: All data in this publication are available ONLINE in our statistical database, CBDB. For more information contact Linette Waters at (212) 759-0900.

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